

July 15, 2024

Violence

“Returning violence for violence multiples violence, adding deeper darkness to a night already devoid of stars.” – Martin Luther King

“I object to violence because when it appears to do good, the good is only temporary; the evil it does is permanent.” – Mahatma Gandhi

Summary:

The week ahead matters as its filled with politics, more key US economic data, more US 2Q earnings, more Fed speakers and more central bank rate decisions. Events matters – the attempted assassination of Trump and security, the Trump-Biden debate and the pressure on Biden to step aside, the US CPI data and the pressure on the Fed to ease, the UK election and the new Labour government plans, the French election and the issuance of more French bonds, Slowing US growth and expectations around the 2Q earnings, stalled China economic recovery and the 3rd Plenum meeting – all drive risks and uncertainty into a market pricing in a soft-landing with ongoing hopes for higher growth from easier rates, better productivity from AI investments and less inflation from just central bank policy effects.

Themes:

- **2Q earnings and the rotation risk** – The focus on high tech market concentration and the spread of the magnificent 7 stocks against the total market comes back to sharp focus with 2Q earnings staring. Last week delivered cracks in tech against small caps as rate cut ups drove up the

Russell 2000 and didn't help the NASDAQ 100. This rotation trade is essential to those that see stocks not losing their bid in 2H2024 despite slowing growth.

- **Fiscal policy and the post-election risks.** The Trump Trade will be back in focus after this weekend's headlines drive up expectations for more support for the candidate. This is a curve steepening trade linked to tax cuts, tariffs and less globalization driving up bond yields, and hurting the USD. The same focus is on the UK King's Speech this week where the new PM Starmer will on Wednesday deliver his view of policy shifts with BOE inflation worries linked to services running hot at 6% y/y. The risk of higher rates linked to looser fiscal is now part of the UK, French and US markets with term-premiums back and fighting against dovish central bankers.
- **Rise in political violence** – what does the assassination attempt on former President Trump mean for the present election? Some claim this assured his winning, others see questions about security, all fear further violence in the US election. The US is seeing a surge in political violence reminiscent of 1970's events, but then property was the focus, now people are. **Between 1965 and 1975 there were 450 cases.** In a Reuters/Ipsos poll of nearly 4,500 registered voters in May, roughly 20% of both Democratic and Republican respondents called violence "acceptable" if committed "to achieve my idea of a better society." But that sentiment alarms most Americans: about 65% of respondents in a separate Reuters/Ipsos poll in March and April expressed concern about "acts of violence committed against people in your community because of their political beliefs."

Political violence since the Jan. 6 attack on the U.S. Capitol

Reuters identified **213** cases of political violence. ■ Two-thirds of those cases were physical assaults and confrontations; ■ the other third involved mainly property damage. Of the 76 individual acts of violence, 18 resulted in fatalities.

Individual acts of violence

76

Violence among dueling groups at public demonstrations and events

58

Car rammings at public demonstrations and events

6

Violence resulting mainly in property destruction

73

Source: Bloomberg, BNY Mellon

What are we watching:

- **Economic Calendar: Monday** – China GDP, industrial production, retail sales, India WPI; **Tuesday** – German ZEW, Canada CPI, US retail sales; **Wednesday** – UK CPI, Eurozone final CPI, US industrial production; **Thursday** – Japan trade, Australia jobs, UK jobs, US weekly claims, Philly Fed manufacturing; **Friday** – Japan CPI, UK retail sales, Canada retail sales
- **Central Banks: Monday** – China 3rd Plenum, BOC outlook, Fed Powell and Daly; Tuesday – ECB lending survey, Fed Kugler; **Wednesday** – Bank of Indonesia, Fed Barkin, Fed Beige Book; **Thursday** – ECB rate decision, SARB rate decision; **Friday** – ECB forecasters survey, Fed Williams, Bostic
- **Issuance: US sells \$13bn in coupons** with \$13bn of 20Y bonds Wednesday and \$19bn in 10Y TIPS Thursday; **UK sells GBP6bn of coupons** – GBP2.25 of 19Y Gilts on Tuesday and GBP4bn on 5Y Wednesday, **EU sells E27bn of coupons** with Monday E2bn of 3Y EU bonds; E4bn of German 5Y Bobl on Tuesday, E2bn of 28Y and 30Y Bunds on Wednesday and E5.5bn of Spanish 6-10-13Y SPGB on Thursday along with E10bn of 3-6-8Y French OATs

News Agenda and Weekly Themes – US retail sales, ECB, China GDP and 3rd party plenum, 2Q earnings

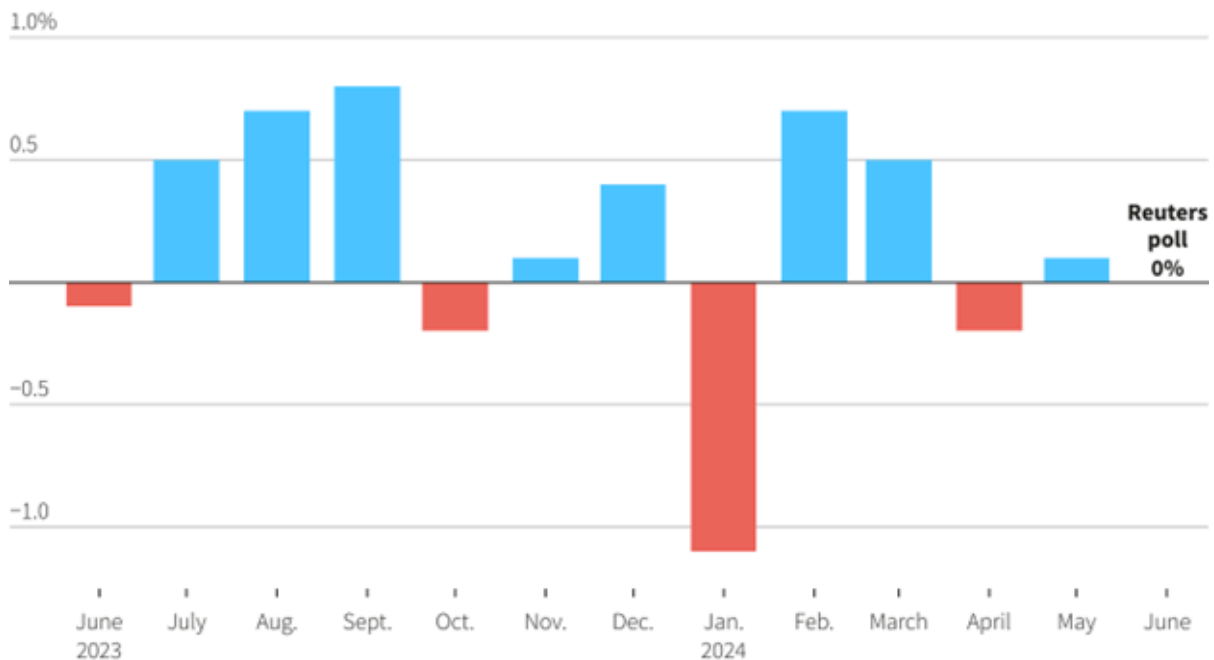
Next week, the equity earnings season will kick into high gear with reports from companies like GS, BlackRock, UnitedHealth, BoA, Morgan Stanley, Charles Schwab, J&J, Netflix, and Amex. Additionally, speeches by several Fed officials, including Chair Powell, are highly anticipated. Economic data releases in the US will include retail sales, industrial production, export and import prices, building permits, and housing starts. Also, attention will be on China's Communist Party's Third Plenum, GDP growth rate, industrial production, retail sales, unemployment rate, and fixed asset investments. Inflation rates will be reported for Canada, the UK, New Zealand, and Japan, while Australia and the UK will release their unemployment rates. Trade balance figures will be closely watched for India, the Euro area, Italy, Japan, and Switzerland. In Germany, the ZEW Economic Sentiment index will be released, and in the UK, key data points will include GfK consumer confidence and retail sales.

1. US Retail Sales and the Consumer Mood – US June retail sales are released Tuesday, July 16 with little expectation for growth. Inflation and higher rates have tested the resilience of households as signs of a cooling economy and inflation bolster expectations for [rate cuts](#) to start in September. The other events for the US markets focus are front-loaded as well - Federal Reserve chief Jerome Powell speaks in Washington on Monday, while Goldman Sachs delivers its [earnings results](#) on July 15, followed by Bank of America and Morgan Stanley the next day. Throw in the US political noise as Donald Trump, will be officially nominated at the four-day [Republican National Convention](#), starting Monday. The last Friday release of [US consumer sentiment from the University of Michigan](#) revealed a worsening mood for consumers, albeit with lower inflation outlooks. The split of views on current conditions and outlooks highlighted political divisions. While the narrative goes that the US consumer has soured their mood, the tail risks for US remain in growth missing the mark in 2Q with this data one further brick in that wall of worry. Even with rate cuts in September, the cost of high for longer could show up at just the wrong time for voters, and the USD.

Exhibit #1: US Retail Sales to match consumer mood?

US consumers are in focus with June retail sales due out

Economists polled by Reuters expect U.S. retail sales to post zero growth in June from the previous month.



Sources: Reuters polling, LSEG Datastream | Reuters, July 9, 2024

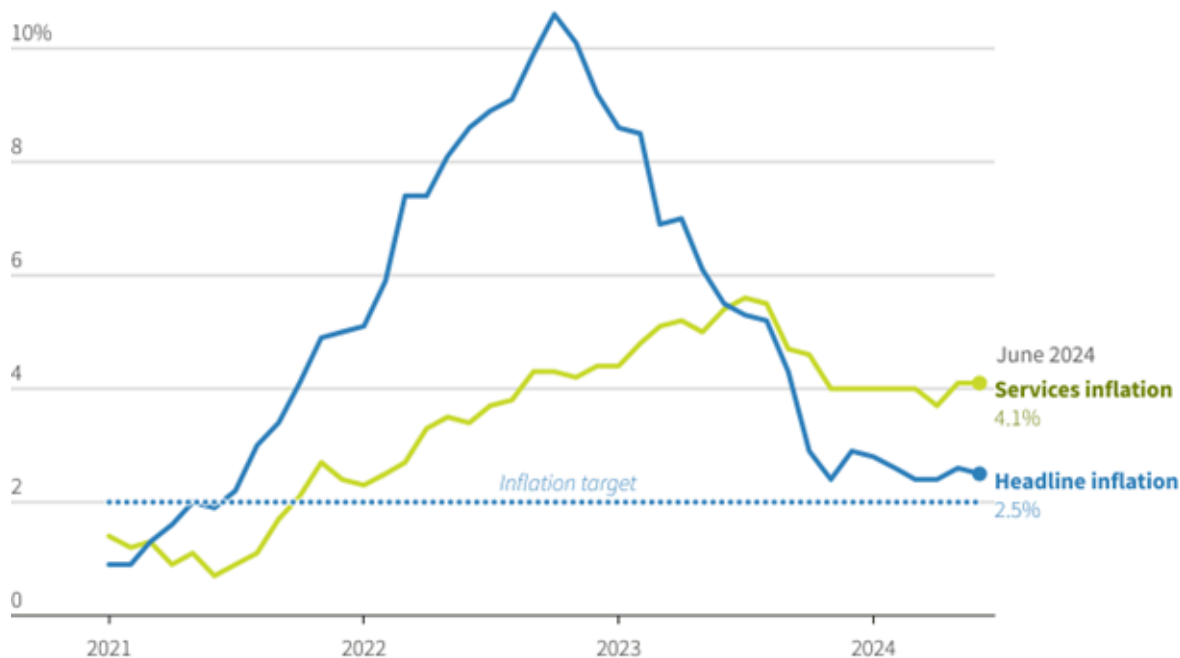
Source: Reuters, BNY Mellon

2. ECB and the slow cutting plans – The ECB meeting on Thursday is widely expected to deliver no change, but the guidance for further easing matters. The divisions shown from the June easing – the central bank’s first easing action in 5-years - show up in ECB speakers and the minutes, while the focus for July will be on the data that matters most to clearing a September easing. Euro zone inflation eased for the first time in three months in June, but rose in the dominant services sector, where it has not dropped this year. Also, ECB President Christine Lagarde will be quizzed about whether the bank is ready to step in and buy French and other government bonds in the event of further turmoil. That looks unlikely unless there are much bigger market swings, or serious contagion to other countries’ debt.

Exhibit #2: ECB has sticky service issue?

Sticky services inflation a headache for the ECB

Overall euro zone inflation has eased, but services inflation has not eased this year.



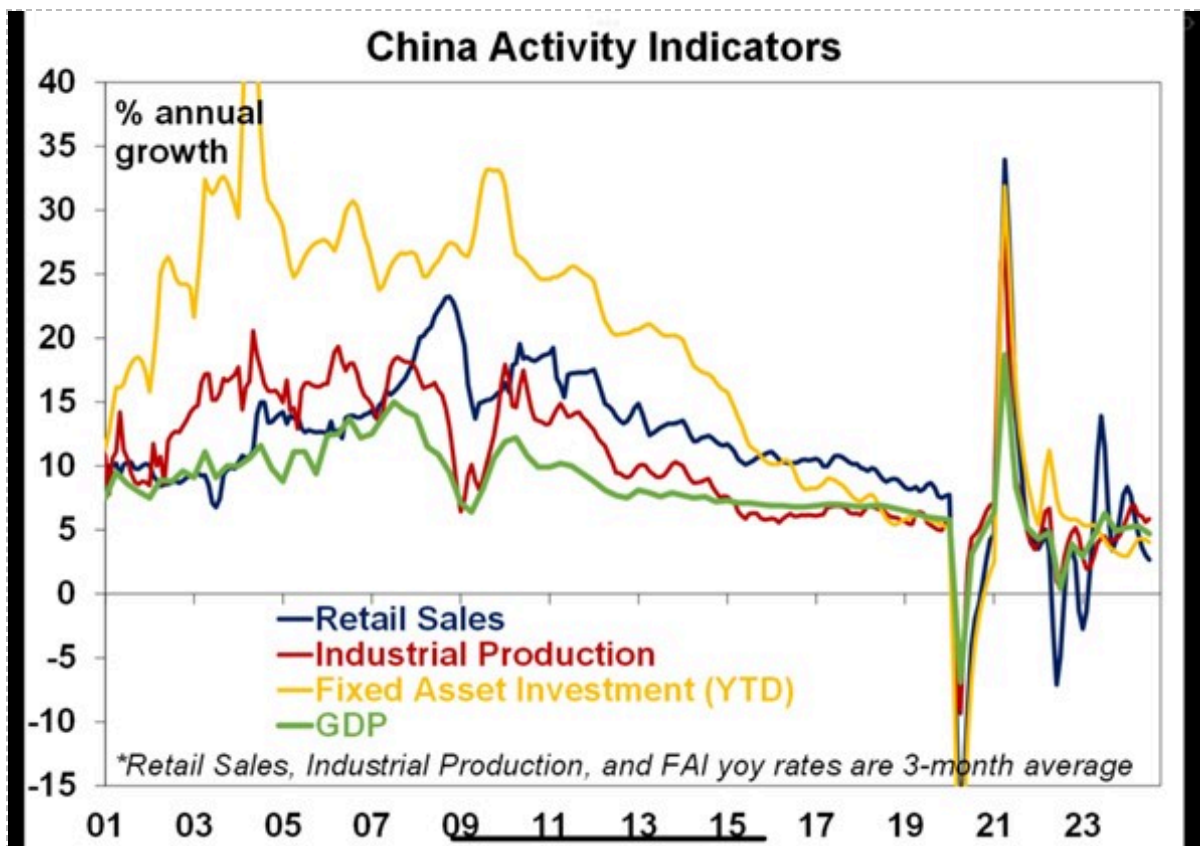
Note: The data in the chart are final readings except for the data from June 2024, which are flash readings.

Source: LSEG Datastream | Reuters, July 10, 2024 | By Pasit Kongkunakornkul

Source: Reuters, BNY Mellon

3. China economic data and the 3rd Plenum – The delayed 3rd party plenum starts Monday in China. Reforms top the agenda: they could include the most significant overhaul of the fiscal system in three decades to try to redirect income from Beijing to cash-strapped regional governments. Focus will also be on the Chinese data releases from 2Q GDP, retail sales and industrial output to property sales and jobs. While strong exports provided respite in the first half, sluggish domestic demand and a shrinking property sector could prove challenging for the rest of the year. The balancing act for China rests on getting demand back without new leverage and without reflating a property market, while at the same time pushing the new agenda for tech and meeting the 5% growth target.

Exhibit #3: China data to drive a RRR cut?



Source: Reuters, BNY Mellon

4. Equities and Earnings – will the rotation trade matter globally? Two of Europe's STOXX 600 heavyweights - Dutch semiconductor maker ASML and German software group SAP - release earnings in the week to come. The influence of big tech firms on the overall market is a talking point. After all, stellar gains in U.S. Big Tech, led by AI chipmaker Nvidia, have skewed the overall performance picture for the S&P500 and much rides on their results. The S&P500 is up 17% this year, but an equivalent equal-weight index is up just 3.8%. No doubt, market breadth is a factor in Europe too. The top 10 STOXX components make up 25% of the index, versus around 20% five years ago. But the STOXX's outperformance, up 7.8% ytd, versus its equal-weighted equivalent, up 3.8%, is narrower than its U.S. peer. For some this has important implications about volatility risks for the markets and for investment decisions over the summer. To FX markets, EUR positive news will matter as the USD weakness spurred by last week's weaker US data requires something further to drive the EUR to 1.10 breakout zones.

Exhibit #4: Europe vs. US rotation trade risks?

A weighty earnings season

The outperformance of the STOXX versus its equal-weighted equivalent is far narrower than that of the U.S. market.



Note: Data rebased to July 10, 2023 and through July 10, 2024.

Source: LSEG Eikon | Reuters, July 11, 2024 | By Kripa Jayaram

Source: Reuters, BNY Mellon

Calendar July 15-19

Central Bank Decisions

- **Indonesia BI (Wednesday, July 17)** – No changes are expected in headline rates but given the direction of travel for the dollar at present, there could be some preference for the market to continue adding to favourably-valued currencies in Asia. However, IDR has long been considered a carry target and thus remained in overhyped territory in iFlow, which somewhat negates its current risk-reward relative to peers. IDR's performance year-to-date has generally been tracking asset flows, and recent inflows have been encouraging but we believe it remains too early to reverse our current outlook on IDR, where we retain a marginal bearish bias due to yield prospects and high uncertainty around the budgetary outlook for next year.
- **Eurozone ECB (Thursday, July 18)** – The ECB is expected to keep rates on hold and there will be very little to add on the signally side as the recent Sintra forum has provided sufficient guidance to the market on future steps. Electoral results in France have also not upended markets or tightened financial conditions, though we expect the ECB to remain attentive to developments in

spread, even if it is required to help them calibrate their balance sheet operations as PEPP reinvestment gradually ends over the coming months. As President Lagarde highlighted in her speech, the labour market remains strong and further easing will be depend on how wage growth slows through H2. For now, data is not supportive of an change in their policy outlook.

- **South Africa SARB (Thursday, July 18)** – This is the SARB’s first meeting since the political settlement has been reached since the recent election and markets do not see much change to SARB’s current policy trajectory as the new governments seeks to begin to turn the economy around. Inflation has been running at manageable levels as there are clear signs of further softness in domestic demand as real incomes continue to struggle. However, with the dollar potentially facing further pressure on valuations, there is scope for real yields to anchor individual currencies more solidly, especially if this is backed up by fiscal credibility. After a very poor period of performance on a cross-asset basis, the coming week will present an opportunity for ZAR-denominated assets to recover lost ground.

Key data/releases

Date	BST	EDT	Country	Event	Period	Cons.	Prior
07/15/24	03:00	22:00*	CH	GDP YoY	2Q	5.10%	5.30%
07/15/24	03:00	22:00*	CH	Industrial Production YoY	Jun	5.00%	5.60%
07/15/24	03:00	22:00*	CH	Retail Sales YoY	Jun	3.40%	3.70%
07/15/24	09:00	04:00	PD	CPI YoY	Jun F	--	2.60%
07/16/24	05:30	00:30	JN	Tertiary Industry Index MoM	May	0.10%	1.90%
07/16/24	10:00	05:00	GE	ZEW Survey Expectations	Jul	43	47.5
07/16/24	10:00	05:00	GE	ZEW Survey Current Situation	Jul	-74.8	-73.8
07/16/24	13:30	08:30	US	Retail Sales Advance MoM	Jun	-0.20%	0.10%
07/16/24	13:30	08:30	CA	CPI NSA MoM	Jun	0.10%	0.60%
07/16/24	13:30	08:30	CA	CPI YoY	Jun	2.80%	2.90%
07/16/24	23:45	18:45	NZ	CPI QoQ	2Q	0.50%	0.60%
07/17/24	07:00	02:00	UK	CPI MoM	Jun	0.10%	0.30%
07/17/24	07:00	02:00	UK	CPI YoY	Jun	2.00%	2.00%
07/17/24	07:00	02:00	UK	CPI Core YoY	Jun	3.50%	3.50%
07/17/24	08:20	03:20	ID	BI-Rate	Jul-17	6.25%	6.25%
07/17/24	10:00	05:00	EC	CPI YoY	Jun F	2.50%	2.50%
07/17/24	10:00	05:00	EC	CPI MoM	Jun F	0.20%	0.20%
07/17/24	12:00	07:00	SA	Retail Sales Constant YoY	May	0.60%	0.60%
07/17/24	12:00	07:00	US	MBA Mortgage Applications	Jul-12	--	-0.20%
07/17/24	13:30	08:30	US	Housing Starts	Jun	1300k	1277k
07/17/24	14:15	09:15	US	Industrial Production MoM	Jun	0.30%	0.90%
07/18/24	02:30	21:30*	AU	Employment Change	Jun	20.0k	39.7k
07/18/24	02:30	21:30*	AU	Unemployment Rate	Jun	4.10%	4.00%
07/18/24	07:00	02:00	UK	ILO Unemployment Rate 3Mths	May	4.40%	4.40%
07/18/24	07:00	02:00	UK	Jobless Claims Change	Jun	--	50.4k
07/18/24	09:00	04:00	PD	Sold Industrial Output YoY	Jun	-1.50%	-1.70%
07/18/24	09:00	04:00	PD	PPI YoY	Jun	-6.30%	-7.00%
07/18/24	13:15	08:15	EC	ECB Main Refinancing Rate	Jul-18	4.25%	4.25%
07/18/24	13:15	08:15	EC	ECB Deposit Facility Rate	Jul-18	3.75%	3.75%
07/18/24	13:30	08:30	US	Initial Jobless Claims	Jul-13	--	222k
07/18/24			SA	SARB Announce Interest Rate	Jul-18	8.25%	8.25%
07/19/24	00:30	19:30	JN	Natl CPI YoY	Jun	2.80%	2.80%

Key data/releases

Date	BST	EDT	Country	Event	Period	Cons.	Prior
07/15/24	03:00	22:00*	CH	GDP YoY	2Q	5.10%	5.30%
07/15/24	03:00	22:00*	CH	Industrial Production YoY	Jun	5.00%	5.60%
07/15/24	03:00	22:00*	CH	Retail Sales YoY	Jun	3.40%	3.70%
07/15/24	09:00	04:00	PD	CPI YoY	Jun F	--	2.60%
07/16/24	05:30	00:30	JN	Tertiary Industry Index MoM	May	0.10%	1.90%
07/16/24	10:00	05:00	GE	ZEW Survey Expectations	Jul	43	47.5
07/16/24	10:00	05:00	GE	ZEW Survey Current Situation	Jul	-74.8	-73.8
07/16/24	13:30	08:30	US	Retail Sales Advance MoM	Jun	-0.20%	0.10%
07/16/24	13:30	08:30	CA	CPI NSA MoM	Jun	0.10%	0.60%
07/16/24	13:30	08:30	CA	CPI YoY	Jun	2.80%	2.90%
07/16/24	23:45	18:45	NZ	CPI QoQ	2Q	0.50%	0.60%
07/17/24	07:00	02:00	UK	CPI MoM	Jun	0.10%	0.30%
07/17/24	07:00	02:00	UK	CPI YoY	Jun	2.00%	2.00%
07/17/24	07:00	02:00	UK	CPI Core YoY	Jun	3.50%	3.50%
07/17/24	08:20	03:20	ID	BI-Rate	Jul-17	6.25%	6.25%
07/17/24	10:00	05:00	EC	CPI YoY	Jun F	2.50%	2.50%
07/17/24	10:00	05:00	EC	CPI MoM	Jun F	0.20%	0.20%
07/17/24	12:00	07:00	SA	Retail Sales Constant YoY	May	0.60%	0.60%
07/17/24	12:00	07:00	US	MBA Mortgage Applications	Jul-12	--	-0.20%
07/17/24	13:30	08:30	US	Housing Starts	Jun	1300k	1277k
07/17/24	14:15	09:15	US	Industrial Production MoM	Jun	0.30%	0.90%
07/18/24	02:30	21:30*	AU	Employment Change	Jun	20.0k	39.7k
07/18/24	02:30	21:30*	AU	Unemployment Rate	Jun	4.10%	4.00%
07/18/24	07:00	02:00	UK	ILO Unemployment Rate 3Mths	May	4.40%	4.40%
07/18/24	07:00	02:00	UK	Jobless Claims Change	Jun	--	50.4k
07/18/24	09:00	04:00	PD	Sold Industrial Output YoY	Jun	-1.50%	-1.70%
07/18/24	09:00	04:00	PD	PPI YoY	Jun	-6.30%	-7.00%
07/18/24	13:15	08:15	EC	ECB Main Refinancing Rate	Jul-18	4.25%	4.25%
07/18/24	13:15	08:15	EC	ECB Deposit Facility Rate	Jul-18	3.75%	3.75%
07/18/24	13:30	08:30	US	Initial Jobless Claims	Jul-13	--	222k
07/18/24			SA	SARB Announce Interest Rate	Jul-18	8.25%	8.25%
07/19/24	00:30	19:30	JN	Natl CPI YoY	Jun	2.80%	2.80%

Conclusions: Is Trump trade coming too soon?

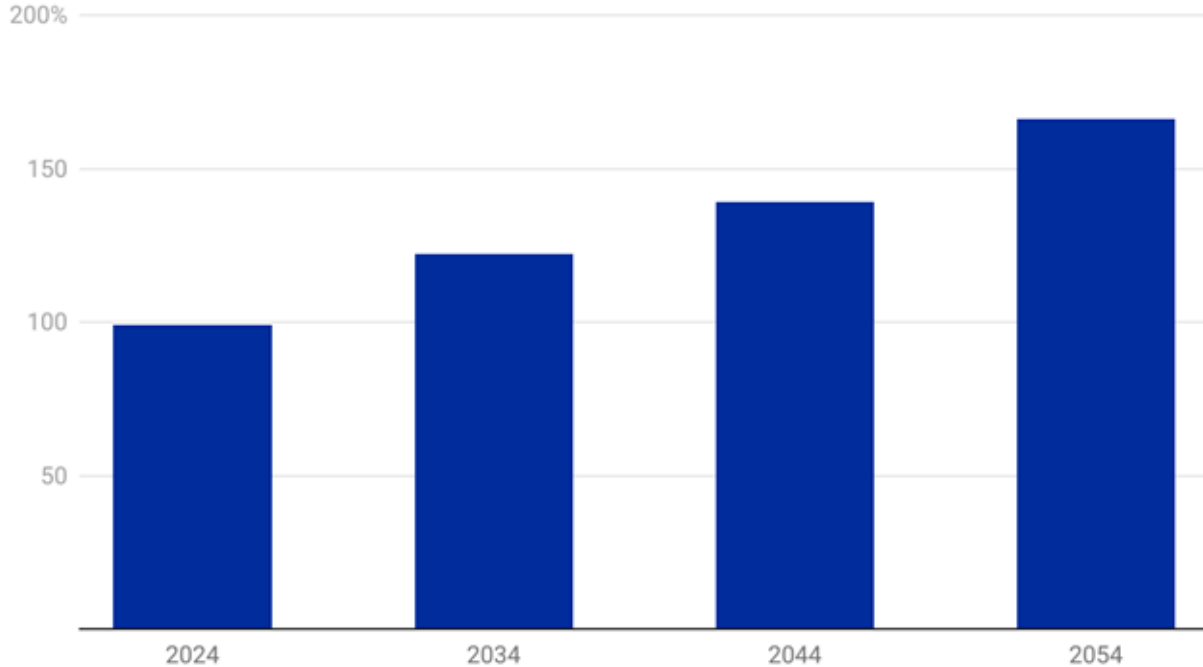
The questions about the week ahead revolve around the balancing act of rates and stocks - with the political focus from the weekend events and the Republican National Convention bringing to the fore policy risk shifts. The fiscal story is the most obvious part of the story as more tax cuts, higher tariffs and pressure on the Fed to cut rates leave a rate curve steepening trade. Higher US rates will make the duration chasing of the investor community. The narrative clash of fiscal spending will offset the fears of a recession and sharply lower rates. Markets will be thinking this through but with little new information unless something becomes clear from this week ahead on policy from a Republican Congress.

Bottom Line: The USD is at a crossroads. Lower rates from the Fed in September were the driver of last week. This week, higher long end rates make the trade less obvious. Further risk of a more tariffs and less global trade hurt emerging markets and growth globally - adding to USD confusion. There is only one way out of too much debt - currency devaluation and inflation. There will a USD risk premium - but just how much it is will settle after Powell and Trump this week.

Exhibit #5: Deficits matter

U.S. debt to keep surging over the next three decades

The Congressional Budget Office sees the debt-to-GDP ratio rising to 166% in 2054



Debt held by the public as a percentage of gross domestic product, forecast. 2034 figure from CBO's June budget and economic outlook update, 2044 and 2054 figures from longer-term outlook published in March

Chart: Yoruk Bahceli, Reuters • Source: Congressional Budget Office

Source: Reuters, BNY Mellon

Disclaimer & Disclosures

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



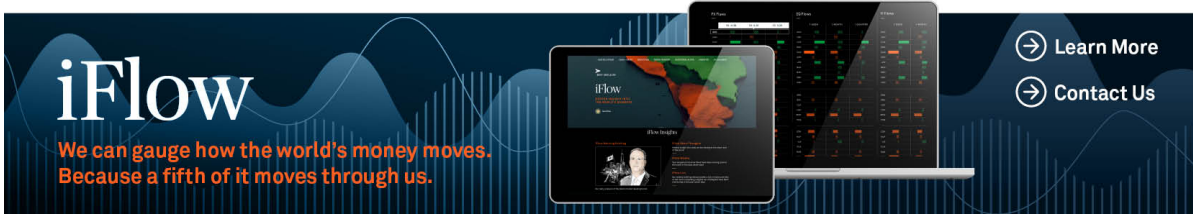
Bob Savage

HEAD OF MARKETS STRATEGY
AND INSIGHTS

CONTACT BOB



Can't see the email? [View online](#)



We take our data protection and privacy responsibilities seriously and our privacy notice explains how we collect, use, and share personal information in the course of our business activities. It can be accessed [here](#).

This email was sent to WeeKhoon.Chong@bnymellon.com, and was sent by The Bank of New York Mellon 240 Greenwich Street, New York NY 10286.

Your privacy is important to us. You can opt out from receiving future Newsletters by unsubscribing via [this link](#) at any time. You can also select the topics that you want to receive by [managing your preferences](#).

This message was sent from an unmonitored email box. Please do not reply to this message.

[Contact Us](#) | iflow@bnymellon.com

© 2024 The Bank of New York Mellon Corporation. All rights reserved.

This message was sent from an unmonitored email box. Please do not reply to this message.