Market Monitor – United States

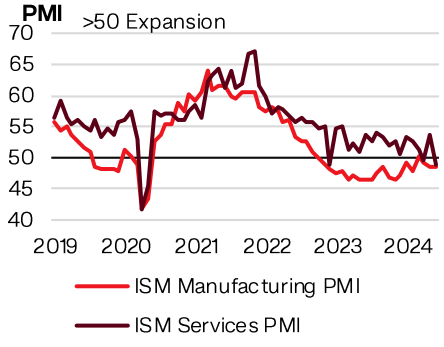
The Fed's dot plot marked one rate cut for 2024

- More soft data pointed to weakening growth momentum ahead.
- Inflation softened, and the Fed's dot plot pencilled in one rate cut for 2024.
- Major US equity indices posted gains in June.

ISM PMIs deteriorated notably, while PCE inflation cooled

Both the manufacturing and services ISM PMI fell into contraction in June. The ISM manufacturing PMI dipped slightly from 48.7 in May to 48.5 in June, remaining in contractionary territory for 3 months in a row. Meanwhile, the ISM services PMI dropped significantly to 48.8 in June from 53.8 in May, missing expectations by a wide margin and marking its lowest reading since May 2020. Critically, the business activity sub-index was down 11.6 percentage points from May to 49.6 in June, and the new orders sub-index also reversed an expansion from the previous month and contracted in June. These pointed to signs of weakening demand. As a highly service-oriented economy, a steep drop in the ISM services PMI indicates that growth is likely to face stronger headwinds ahead. That said, hard data remained steady. Personal disposable income was up 0.5% month-on-month (MoM) in May from 0.3% in April, while personal spending increased by 0.2% MoM from 0.1%. These figures indicate that US economic performance in Q2 should continue to grow moderately.

ISM Manufacturing and Services PMI

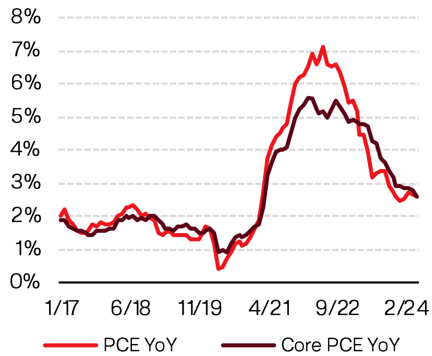


Source: Bloomberg, data as of 04/07/2023

US consumer confidence hovered at low levels amid elevated price levels. The University of Michigan's consumer sentiment index declined from 69.1 in May to 68.2 in June and the US Conference Board's consumer confidence index declined from 101.3 to 100.4, respectively. Both indices were still significantly below their post-pandemic peaks in 2021. While inflation eased from its peak, elevated prices compared to historical levels continued to weigh on consumer spending, particularly the savings rate, which has been low since mid-2023.

PCE inflation slowed further in May. In May, headline and core PCE inflation both rose by 2.6% YoY, down from 2.7% and 2.8%, respectively, in April. These figures marked the slowest year-on-year growth since March 2021. On a MoM basis, headline PCE inflation remained flat, while core PCE inflation inched up by 0.1%, decelerating from 0.3% in April. Major drivers of slower inflation were goods prices (-0.4% MoM) and energy prices (-2.1% MoM), which offset the price gains of services (+0.2% MoM), house prices (+0.4% MoM) and food prices (+0.1% MoM). These figures represent positive developments for the Fed, indicating a growing optimism that current monetary policy is restrictive enough to cool inflation towards the Fed's 2% target, opening up the possibility of rate cuts ahead.

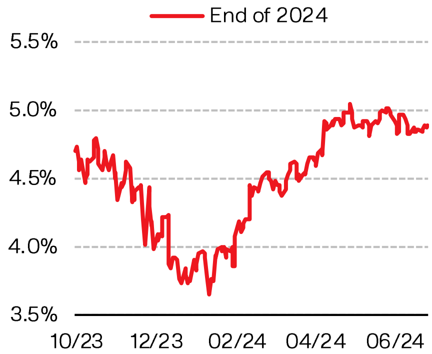
US PCE Inflation



Source: Bloomberg, data as of 28/06/2024

The Fed's dot plot marked one rate cut for 2024. After the June meeting, FOMC members decided to keep the fed funds rate unchanged at 5.25-5.50% as expected. The latest quarterly "Summary of Economic Projections" (SEP) was released with a hawkish tilt among FOMC members, as the dot plot's median projections showed 1 rate cut in 2024, 4 in 2025, and 4 in 2026, compared to 3 cuts in 2024, 3 in 2025 and 3 in 2026 in the March SEP. This reflected a cautious stance towards monetary easing, given a few months of stalled disinflation progress in Q1. While most recent inflation readings have begun to soften again, Fed Chairman Jerome Powell has repeatedly stressed that more evidence of a sustained disinflation trend is needed before gaining sufficient confidence to begin rate cuts.

US Rate Expectations



Source: Bloomberg, data as of 28/06/2024

Recent US labour market data pointed to a cooling trend. In June, total nonfarm payroll employment increased by 206,000, above the consensus of 190,000. That said, nonfarm payrolls were revised down by a total of 110,000 for April and May. Besides, the labour force participation rate inched up to 62.6% in May from 62.5% in June, with the unemployment rate ticking up from 4.0% to 4.1%. Meanwhile, wage growth slowed slightly, as average hourly earnings increased by 3.9% YoY and 0.3% MoM in June, a dip from 4.1% and 0.4%, respectively, in May. These figures showed signs that the US labour market expanded at a slower pace, which should ease underlying inflationary pressure. Given a cooling labour market, financial markets are increasingly pricing in the odds for the Fed to start rate cuts in Q3.

US election uncertainties have started to surface. The first US presidential debate was held on 27th June 2024, in which President Biden and former President Trump faced off publicly. After the debate, President Biden's performance triggered increasing worries regarding whether he would be fit for a second term. Besides, recent polls showed that Trump has been widening his lead over Biden. While the elections will be held in November, it remains uncertain how the presidential race will evolve. In the coming months, political risks in the US are likely to stay elevated.

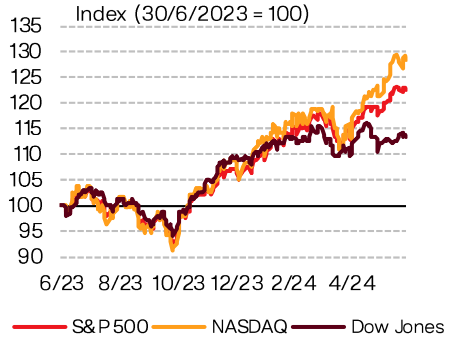
US 10-year Treasury Yield

Source: Bloomberg, data as of 28/06/2024

Major US equity indices posted gains in June

All three key US equity indices gained in June. The S&P 500, Nasdaq, and Dow Jones Industrial Average (DJIA) all rose in June, by 3.5%, 6.0%, and 1.1% MoM, respectively. During 1H 2024, the S&P 500 grew by 14.5%, the Nasdaq grew by 18.1%, and the DJIA grew by 3.8%, as they all reached all-time highs driven by heightened interest in artificial intelligence and other tech stocks, boosting equity markets as a whole. Meanwhile, the 10-year US treasury yield dropped 1.03 basis points MoM to 4.397%, while the US Dollar Index rose by 1.1% MoM to 105.866 in June.

US Equity Indices



Source: Bloomberg, data as of 28/06/2024

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