Rothschild & Co
Asset Management

# Monthly Macro Insights — June 2024

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Although the global economy is still experiencing the lagged effects of tighter monetary policy, business confidence has been improving over the past few months, suggesting positive momentum going into the second half of the year. Will central banks be a tailwind or a headwind?

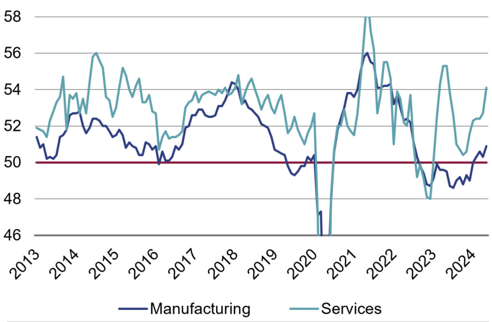
## Improvement amid conflicting signals

As we approach the half-way mark for 2024, investors' global economic outlook is increasingly positive amid stronger business confidence. The S&P Global PMI[1] rose to a 12-month high of 54.1 (+1.4pt) in May in the services sector, underpinned by an improvement in the new orders sub-index[2]. In the manufacturing sector, the upturn seems to have gathered pace as the index rose to a 22-month high of 50.9 in May (+0.6pt)[2]. By regions, growth accelerating in the US (+1.3pt to 51.3) and China (+0.3pt to 51.7), while rate of contraction eased in the eurozone (+1.6pt to 47.3) in large part thanks to the +2.9pts jump in the German manufacturing PMI[2].

That said, national indicators have painted a much different picture compared to the S&P Global indices and still suggest a challenging environment. In China, after only two months above the 50-threshold, the NBS manufacturing PMI fell again in contraction territory, to 49.5 (-0.9pt). In the US, the business activity seems to have contracted at an accelerating pace in May, with the ISM manufacturing dropping -0.5pt to 48.7[2], while in Germany the Ifo business confidence index remained unchanged at a low level[3].

World – Business confidence

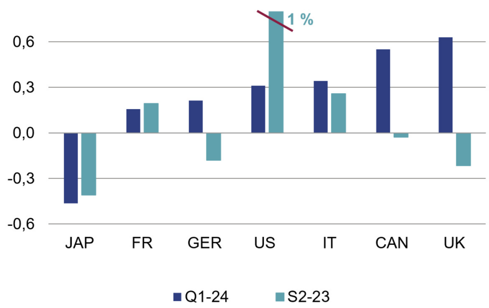
*PMI S&P Global*




Sources: Macrobond, Rothschild & Co Asset Management, May 2024.

G7 – Economic growth

*in %, q/q*




Sources: Macrobond, Rothschild & Co Asset Management, May 2024.

## The Fed, and the others

Historically, the Fed has tended to lead the global financial cycle by adjusting its policy stance before other central banks, substantially influencing financial conditions elsewhere. But this time is somewhat different, with the Fed retaining a hawkish bias while some centrals banks among advanced economies have started to cut rates. This divergence, namely vis à vis the ECB, seems reasonable for several reasons.

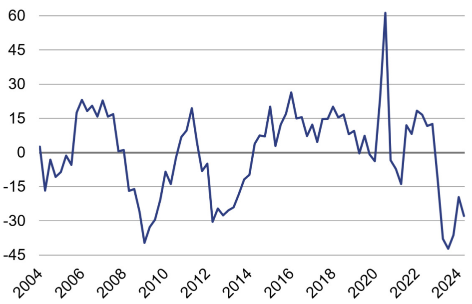
First, differences in growth have been significant. The Eurozone endured a shallow recession last year and only began staging a tentative recovery in Q1-2024. In contrast, US growth has proven resilient, benefiting from strong labour force growth, a very generous fiscal policy as well as from its position as a net energy exporter amid the energy supply shock following Russia's invasion of Ukraine. The loosening of financial conditions, in part explained by Chair Powell's dovish rhetoric in late 2023 up until last March, also fostered growth. The Fed is unlikely to want to repeat this mistake, as it makes the fight against inflation even more complicated. What's more, although the upcoming US elections are uncertain, the outcome, with the potential for trade protectionism and fiscal policy to become even more expansionary, could fuel another inflation surge.

The big question is what comes after the ECB's June rate cut. President Lagarde has been very mindful not to make strong forward guidance regarding the future policy path, especially as it is becoming increasingly difficult to balance risks of leaving rates higher for longer or cutting too early.

On the one hand, Europe's inflation largely resulted from a series of supply shocks. In the past few quarters, these have eased considerably, thus leading to a clear disinflationary path from the 10.6 per cent inflation peak in October 2022[1]. Meanwhile, the PMI recorded a third successive month of rising business activity during May – i.e. above the 50-threshold – and reached a one-year high. However, the recovery depends in part on the loosening of monetary policy as the ECB lending survey suggests that monetary transmission continues to be a forceful headwind to growth, confirming that higher interest rates still dampen loan demand from businesses and households.

**Eurozone – Business loan demand**

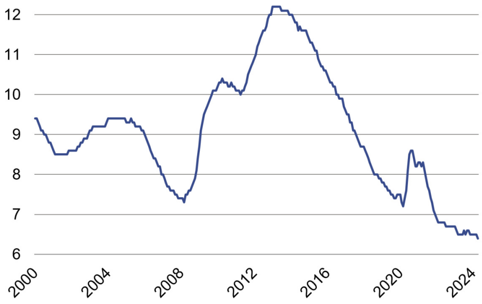
*in % net, ECB lending survey*




Sources: Macrobond, Rothschild & Co Asset Management, May 2024.

**Eurozone – Unemployment rate**

*in %*




Sources: Macrobond, Rothschild & Co Asset Management, May 2024.

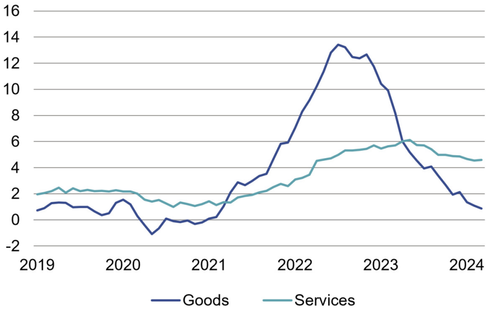
On the other hand, the unemployment rate in the Eurozone reached a record low of 6.4 per cent in April[4] and the tight labour market could stoke inflationary pressures further, or at least make the last mile towards target more difficult. Wage indicators, such as negotiated wages or the labour cost index, were much strong than expected in Q1-2024. Combined with subdued productivity, services inflation could remain elevated due to high unit labour costs, especially if profit margin behaviour of the business sector remains buoyant. Incidentally, the ECB's staff economists revised up inflation for both 2024 and 2025 by 0.2 percentage points to 2.5 and 2.2 per cent, respectively, meaning the return to target will only happen in 2026[5].

The main message from the ECB June meeting is that the Governing Council will keep rates in restrictive territory while not pre-committing to a particular rate path. This is casting doubt on the investor scenario of at least two more cuts in 2024, especially as policy divergence with the Fed could lead to currency depreciation that raises import prices, also limiting ECB's policy choices.

Overall, the global economic outlook has brightened recently, in part due to the prospect of monetary policy easing. Nevertheless, there are plenty of obstacles to navigate, with inflation rates surprising to the upside once again, thus forcing many central banks to keep their interest rates elevated. Furthermore, several elections will come against the backdrop of geopolitical hotspots. Freight rates have jumped over the past months as the shipping crisis caused by Houthi rebels in Yemen attacking container vessels has led to delays for customers and congestion in several ports, which could contribute significantly to goods inflation.

## OECD – Inflation rate

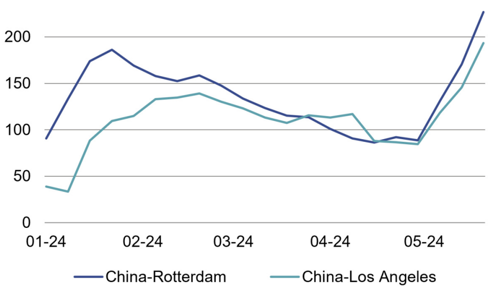
*in %, median*




Sources: OECD, Rothschild & Co Asset Management, May 2024.

## World – Maritime freight rates

*in %, y/y*




Sources: Bloomberg, Rothschild & Co Asset Management, May 2024.

## Performance of the indices and interest rate levels

| | Price as of 31/05/2024 | 1 month % change | 2024 % change |
|---|---|---|---|
| **Equity markets** | | | |
| CAC 40 | 7 993 | 0.1% | 6.0% |
| Euro Stoxx 50 | 4 984 | 1.3% | 10.2% |
| S&P 500 | 5 278 | 4.8% | 10.6% |
| Nikkei 225 | 38 488 | 0.2% | 15.0% |
| **Currencies** | | | |
| EUR/USD | 1.08% | 1.7% | -1.7% |
| EUR/JPY | 170.62 | 1.4% | 9.6% |

| Interest rates | Price as of 31/05/2024 | 1 month bp(1) | 2024 bp(1) |
|---|---|---|---|
| **3 month** | | | |
| Eurozone | 3.71% | -9 | 10 |
| United States | 5.40% | 1 | 7 |
| **10 years** | | | |
| Eurozone | 2.66% | 8 | 64 |
| United States | 4.50% | -18 | 62 |

(1) Basis point.
Source: Bloomberg. data as of 31/05/2024. Performances in local currency.
Past performance is not a reliable indicator of future performance and is not constant over time. Index's performance is calculated on the basis of net dividend reinvested

Completed writing on 7 June 2024.

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(1) Purchasing Managers' Index, an indicator reflecting the confidence of purchasing managers in a sector of activity. Above 50, it indicates an expansion in activity, below 50, a contraction.
(2) Source: S&P Global, June 2024.
(3) Source: ifo Institut, June 2024.
(4) Source : Eurostat, June 2024.
(5) Source : BCE, 06/06/2024.

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Neben einem aktiv gemanagten High-Conviction Ansatz bieten wir unseren Kunden Zugang zu selektiv ausgewählten Investmentlösungen über unsere OpenArchitecture Plattform. Unser Hauptsitz liegt in Paris mit Büros in 9 weiteren europäischen Ländern. Rothschild & Co Asset Management verfügt über ca 170 Mitarbeiter und mehr als 38 Mrd. Euro verwaltetem Vermögen.

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