



CONCERNS ABOUT INFLATION AND ELECTION UNCERTAINTY WEIGH ON GOVERNMENT BONDS

This week has been dominated by elections. In the UK, we're approaching the end of a thankfully short and relatively surprise-free election. Surprise free doesn't mean uninteresting, however. Rishi Sunak's campaign has been littered with terrible judgment calls, while the rise of support for Reform and uncertainty about voter turnout means there is enough to keep things interesting.

The US the presidential election stepped up a gear with the first televised debate. There was a lot of material for staunch supporters and hard-line critics of both candidates, but not a lot to encourage the large number of voters with little love for either Trump or Biden. Meanwhile, the first round of voting in the election for the French National Assembly is this weekend. Much like Rishi Sunak in the UK, time has got away from president Emmanuel Macron as opposition parties on the left and right have managed to set most of the agenda. With many parties offering expensive, eye-catching policies even positive news on inflation wasn't enough to stop nervousness returning to government bond markets.

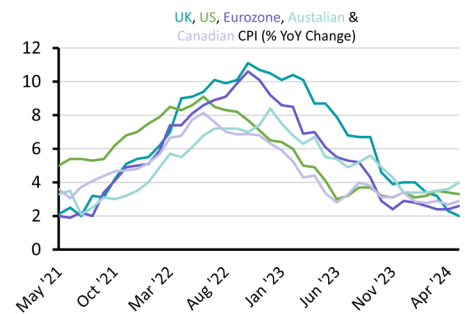
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	MSCI Europe	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Iron Ore	GBP USD
-0.34%	+0.71%	+3.07%	-0.47%	-1.71%	+0.07%	+0.12%	+0.42%	-1.43%	-0.59%	-0.08%

BONDS: INFLATION CONCERNS RETURN TO GOVERNMENT BOND MARKETS

Government bonds declined this week as evidence of sticky inflation caused investors to become less optimistic about interest rate cuts. Rising inflation in Australia and Canada caused those countries' government bonds to fall in value and push up yields. US government bond yields also rose as some members of the Federal Reserve warned that upward pressure on inflation may prevent any rate cuts in the short term. In the UK, gilt yields increased as strong consumer spending and growth in the services sector added to reasons for the Bank of England to delay cutting rates.

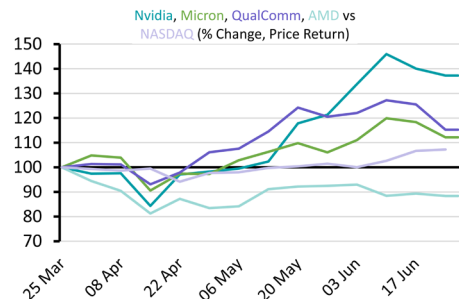
The European Central Bank is generally seen as more likely to cut rates than the Fed or Bank of England, but European government bonds also fell as nervousness about the outcome of the French elections returned to markets. The yield on French government debt increased, as bond values fell, due to concern about the French government's level of borrowing. The pessimistic mood also caused Italian, Spanish and German bond yields to rise.



TECH: AI STOCKS VOLATILE AS MICRON MISSES EARNINGS TARGET

Volatility among AI-linked technology companies dragged on US equities as some stocks fell back from recent highs. Nvidia has produced the biggest gains in the S&P 500 over the last year, however, a sell-off which carried over from last week saw its shares fall around 15% before recovering slightly. The sell-off was linked to technical factors, as some derivatives contracts expired, and some profit taking following news that Nvidia's founder and chief executive Jensen Huang recently sold \$95m worth of shares.

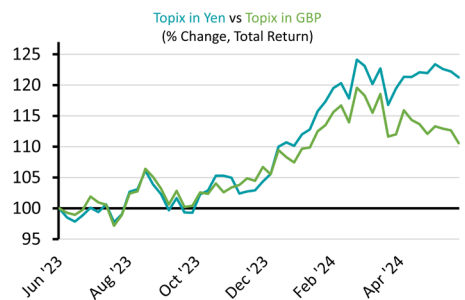
Meanwhile shares in chip maker Micron Technologies also dropped sharply after it fell short of an ambitious earnings forecast. This contributed to a decline in related stocks such as Qualcomm and Broadcom as all three stocks fell between 9.5% and 13.5%. Share prices stopped falling by the middle of the week as investors waited to see if the June PCE inflation number would help persuade the Federal Reserve to bring forward rate cuts – a move which should prove supportive of many high-growth tech stocks.



JAPAN: YEN UNDER PRESSURE DUE TO UNCERTAINTY OVER RATE HIKES

The recent decline in the value of the Japanese yen has markets anticipating further intervention from the Bank of Japan. The yen fell to 160 against the dollar this week, the lowest exchange rate since 1986 and considerably below the rate of 158 it hit in April, and which caused the BoJ to spend around \$60bn to push up the currency. The bank's intervention helped the yen to recover to 152 against the dollar, but this was short-lived as the currency has been depreciating steadily since then. The yen is expected to remain under pressure until it is clear the Federal Reserve is going to cut rates.

Some investors expect the BoJ will wait until after the latest US PCE inflation reading, due on Friday, before on a course of action. The yen is also down significantly against the euro and the pound this year. This has a big effect on returns for investors without any hedge against currency moves. Over the last year local currency investors in the Topix index would have made a return of 25.7%, but a sterling investor would have made a return of 13.5%.



Data sourced from Yahoo Finance, St Louis Federal Reserve, Australian Bureau of Statistics and FE Analytics

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