

Weekly Newsletter

Aug 2nd, 2024

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Musings

"History doesn't repeat itself, but it often rhymes."

Mark Twain

Last week in the markets

Underlying	Closing level	Weekly change	YTD change
S&P 500	5,346.56	-2.06%	13.04%
Nasdaq Composite	16,776.16	-3.41%	14.21%
10Y UST Yield	3.79%	-9.67%	-3.18%
Crude oil	74.11	-3.95%	3.74%
Gold	2,443.72	2.40%	18.10%
DXY	103.22	-1.05%	1.85%
USD/INR	83.78	0.04%	0.73%
Euro STOXX 50	4,638.70	-4.57%	2.93%
India (Nifty)	24,717.70	-0.53%	13.92%
Japan (Nikkei)	35,909.63	-4.67%	8.45%
China (SSE)	2,905.34	0.50%	-1.91%
Saudi (TASI)	11,754.37	-2.26%	-2.35%
Abu Dhabi (ADX)	9,292.20	-0.27%	-3.09%
Dubai (DFM)	4,237.30	-1.01%	1.15%

**Closing level prices taken as at last week closing, i.e. Friday 26th July closing price (except TASI, which is Thu 25th July closing price)

**Weekly change computed based on previous week Friday closing price

** YTD change computed based on closing price of 1st day trading of 2024 (which varies for each market)

News from the markets

US nonfarm payrolls rose by 114,000 – one of the weakest prints since the pandemic – and job growth was revised lower in the prior two months. **The unemployment rate unexpectedly climbed for a fourth month to 4.3%**. New economic data revealed that first-time applications for jobless benefits rose last week to an estimated 249,000 filings, the highest tally since last August. Meanwhile, continuing claims, filed by people who have received unemployment benefits for at least a week, jumped to 1.877 million.

That's the highest level since November 2021. **We have repeatedly flagged the underlying weakness in employment data in our earlier newsletters.**

The Dow Jones Industrial Average slumped 2.1% last week. The small-cap Russell 2000, which hit a 30-month high earlier in the week, finished down 6.7%. The S&P 500 index lost 2.1% and the Nasdaq composite lost 3.35. **The Nasdaq entered traditional intermediate correction territory.**

The Russell 2000 and Dow both, with more "real economy" components than the tech-heavy Nasdaq, were big winners in July as the market priced in Fed rate cuts. But with the focus shifting to recession fears, those indexes are tumbling back. So are banks, industrials and aerospace stocks. **Readers of this newsletter would recall our skepticism regarding the sustainability of the so called rotation trade.**

The 10-year Treasury yield plunged 40 basis points for the week to 3.795%. The two-year yield crashed 52 basis points to 3.87%. It was the biggest weekly decline for both since March 2023. **The yield spread is the least inverted it's been in two years. We had recommended spread-flattening trades in our earlier newsletters. Traders are projecting that the Fed will cut rates by more than a full percentage point in 2024.**

U.S. crude oil futures tumbled 4.7% to \$73.52 a barrel last week, hitting a two-month low on Friday.

The CBOE Volatility Index, or VIX, shot up Friday to its highest levels since March 2023.

NVDA stock tumbled 5.1% to 107.27, with multiple reports late in the week that the DOJ is probing the chip giant for its AI dominance.

TSLA stock fell 5.5% for the week to 207.67. Shares are down 23% since hitting a 10-month high of 271 on July 11th. On August 2nd, the Delaware Chancery Court began a hearing on Elon Musk's 2017 pay deal, which it struck down earlier this year. Shareholders endorsed the pay deal again in June, but it's unclear if the court will give that any legal weight.

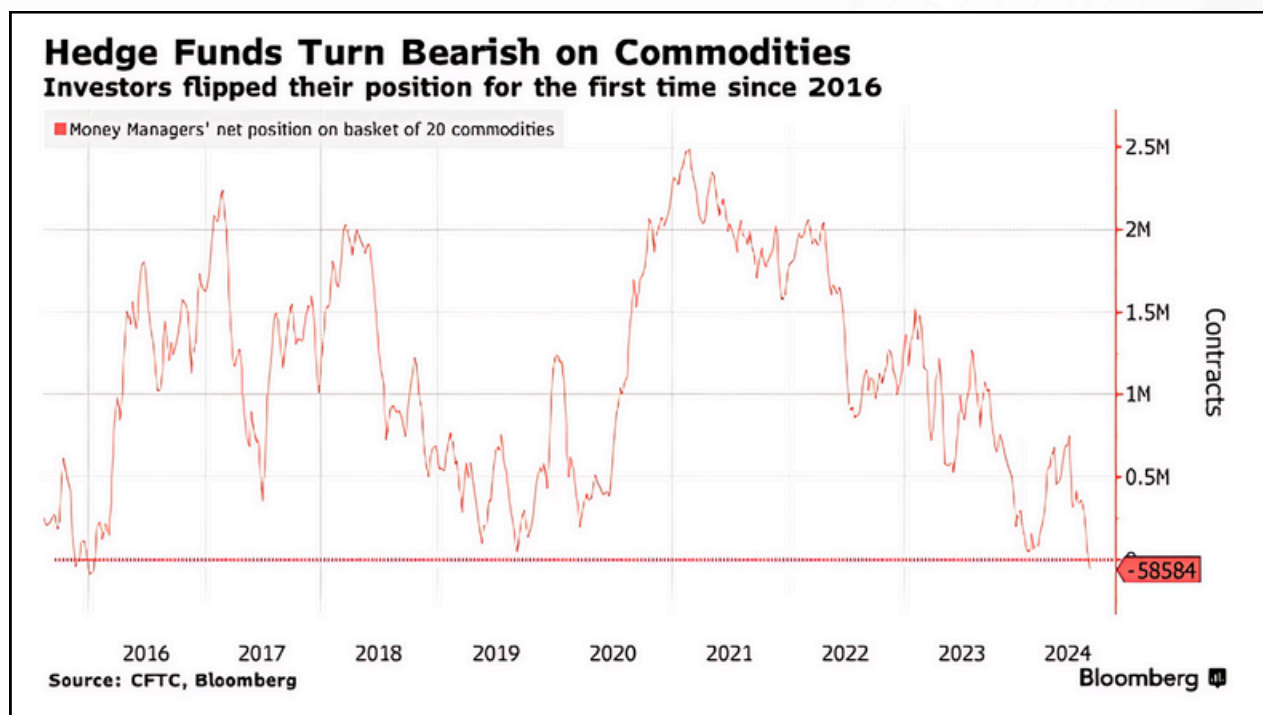
Of the six members of 'The Magnificent 7' group that have already reported June-quarter results, the market was disappointed with Tesla, Alphabet, Microsoft, and Amazon. Conversely, it was okay with Apple's quarterly release and loved Meta's results.

Palantir Technologies, Super Micro Computer, Caterpillar, Embraer are notable earnings reports this coming week, along with drug giants Eli Lilly and Novo Nordisk.

The Bank of Japan (BOJ) raised interest rates by 15 basis points to 0.25% in its second hike this year and announced plans to taper its bond buying. Traders expect more rate hikes to come later this year as the central bank tries to contain inflation. The hike has narrowed the difference in interest rates between the United States and Japan, which pushed the Japanese yen higher against the greenback.

The dollar has fallen by more than 4% against the Japanese currency since the middle of last month. **This threatens the continuation of the 'carry trade' wherein traders borrow in Japanese Yen to invest in USD (and other higher interest rate bearing currencies) denominated assets.** Japanese stocks plunged and the Nikkei 225 has now closed at its lowest level since January.

Chart of the Week



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