ASAS CAPITAL
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Regulated by the DFSA

Weekly Newsletter

August 30th, 2024

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Musings

"Wealth is the ability to fully experience life."

— *Henry David Thoreau*

Last week in the markets

	Closing level	Weekly change	YTD change
S&P 500	5,648.40	+0.24%	+18.42%
Nasdaq Composite	19,574.64	-0.74%	+16.34%
10Y UST Yield	3.908	+2.73%	+0.70%
Crude oil	73.65	-1.75%	+3.25%
Gold	2,503.40	-0.34%	+21.35%
DXY	101.73	+1.01%	+0.39%
USD/INR	83.87	+0.07%	+0.83%
Euro STOXX 50	4,957.98	+0.99%	+9.65%
India (Nifty)	25,235.90	+1.66%	+16.13%
Japan (Nikkei)	38,647.75	+0.74%	+15.49%
China (SSE)	2,842.21	-0.43%	-4.46%
Saudi (TASI)	12,145.15	-0.94%	-0.46%
Abu Dhabi (ADX)	9,284.93	-0.95%	-3.06%
Dubai (DFM)	4,325.45	+0.76%	+6.52%

News from the markets

US stocks ended a wobbly week and a volatile month on a high note as the latest reading of the Federal Reserve's preferred inflation gauge bolstered rate-cut hopes and kept the central bank on track for a policy pivot in September.

The annual change in the Fed's preferred inflation gauge — the so-called core Personal Consumption Expenditures index — clocked in better than expected at 2.6% for the month of July, unchanged from June. Economists had expected 2.7%.

The month-over-month change in the measure, which strips out the costs of food and energy, held steady from June at 0.2%. With that metric confirmed, a very important thing has happened: **The Fed's preferred inflation gauge is back to trending below 2%, the Fed's target and holy grail of the past two years.**

The past three months of data on an annualized basis puts the key metric at just 1.8%. Since the inflation crisis began, we've been here twice before, in August and December of last year. But with the labor market showing healthy cooling, there's reason to believe that this time is different.

If this trend indeed solidifies — say, towards the six-month timeframe and beyond — **more humdrum inflation releases will mean more flexibility for the Fed as it decides exactly how to budget and pace out its cuts.**

Retailers like Dollar General, Lululemon, Abercrombie & Fitch, and Ulta Beauty faced mixed reactions this week due to concerns about consumer spending. **Dollar General's stock plummeted 32% after the retailer lowered its full-year outlook, citing weaker sales from its core customers who are focusing more on essentials rather than home goods and seasonal items.** Similarly, Ulta Beauty reported weaker-than-expected results, attributing it to a more budget-conscious shopper affecting both revenue and profits.

Nvidia stock fell over 8% in the immediate aftermath of its quarterly earnings report, despite reporting stronger than expected earnings. The Company posted 122% revenue growth on a year-over-year basis. It also expects to see $32.5 billion of revenue in the current quarter, above expectations. The Company posted EPS of $0.68, above expectations of $0.65, on revenue of $30.0 billion, above expectations of $28.9 billion. The stock has since recovered, and several analysts have raised their 12-month forecasts on the stock.

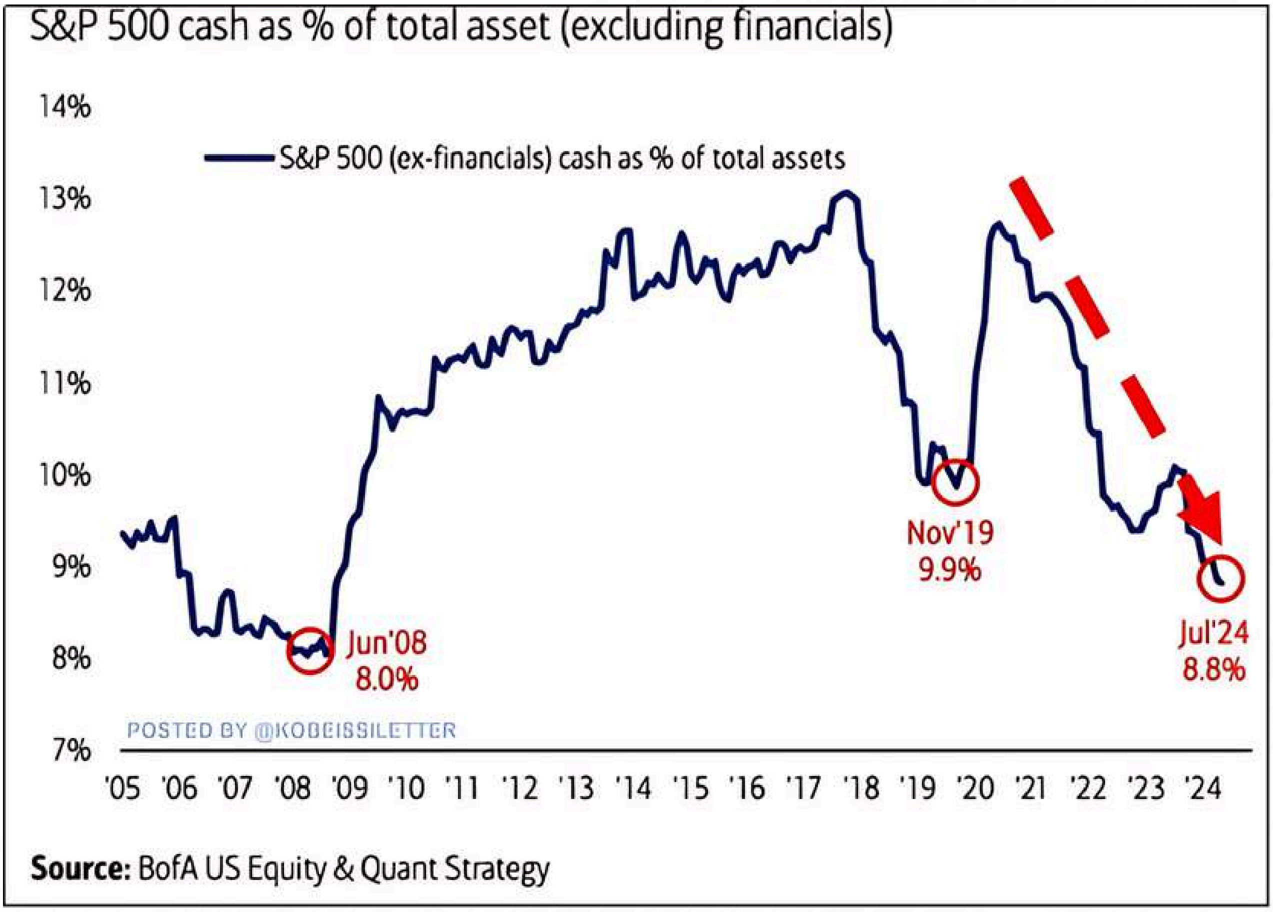
Magnificent 7 capital expenditures hit ~$44 billion in Q2 2024, the highest level on record. This is a ~25% jump from the $35 billion seen in the previous quarter and a 47% surge compared to Q2 2023. Most of this spending was driven by AI investments as AI hype has accelerated. Much of this capital has gone toward Nvidia, and other large chip makers. Big tech is all-in on the AI revolution.

At the same time, retail is also very bullish of Nvidia, as retail investor purchases of Nvidia stock hit $5.9 billion over the last month, the most on record. Purchases have more than **DOUBLED in just 5 weeks, according to Vanda Research data and risen over 600% since May.** Retail flows into Nvidia leveraged long ETFs, $NVDL, $NVDU, and $NVDX hit $260 million over the last month, also a new all-time high.

China stocks saw a remarkable jump on Friday, recovering from near seven-month lows, following disclosures that sovereign fund Huijin had been on a buying spree. The news sent ripples through sectors such as insurance and technology, while Hong Kong shares reached a one-month high. **Despite these gains, China stocks are still on track for their fourth consecutive monthly losses.**

BYD reported a sharp slowdown in earnings growth for the first half of 2024, as **a prolonged price war has hit EV makers in the world's largest car market.** BYD overtook Honda and Nissan to become the world's seventh biggest carmaker by sales volume in Q2'24. However, the record delivery of 983K passenger vehicles in the quarter translated into lower-than-expected revenues of Rmb176.2bn. To add to this, the outlook for global expansion has been marred by **tariffs introduced by western countries which has required them to shift their focus to emerging markets.**

Chart of the Week



Cash as a % of total assets for S&P 500 companies fell to 8.8% in July, the lowest level since 2009. S&P 500 companies have spent the vast majority of their excess cash which may limit future dividends and share buybacks.

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