EQUITY MARKETS DROP AS US TECH STOCKS FEEL SOME POLITICAL PRESSURE

This week US tech stocks have come under more pressure as investors see the potential for political disruption to the semiconductor industry. The attempted assassination of Donald Trump and the announcement of JD Vance as his running mate mean markets are paying more attention to his economic policies as the Republicans begin to gear up for the presidential election in the autumn. The threat to make Taiwan pay for its defence created some nervousness among investors due to the island's central role in the global semiconductor industry, and the negative sentiment towards tech stocks has dragged on global equity markets.

However, the potential for higher tariffs may be more significant for markets in the long term. President Joe Biden and Trump have both been talking up the need for higher tariffs, particularly on trade with China. But core inflation remains stubbornly high and the IMF highlighted rising trade tariffs as a potential source of resurgent inflation and central banks remain wary of anything that will push inflation back up.

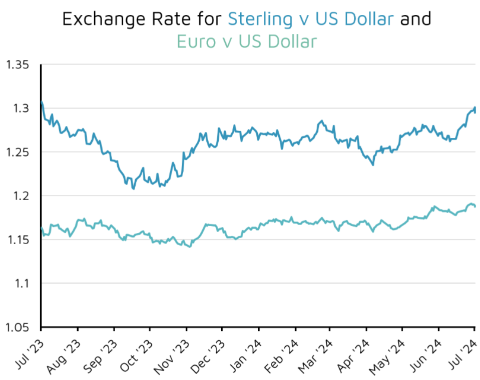
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	MSCI Europe	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Iron Ore	GBP USD
-1.19%	-0.98%	-3.76%	-2.02%	-4.80%	-0.03%	-0.06%	-1.22%	+0.65%	-0.77%	-0.15%

UK: CPI HOLDS STEADY AT 2% AS WAGE INFLATION REMAINS HIGH

Inflation in the UK was unchanged at 2% last month as falling retail prices offset higher inflation in the hospitality sector. However, core inflation remains high at 3.5%, and the high rate of inflation in services will be a concern for the Bank of England. This week the International Monetary Fund warned that high services inflation and rising trade tariffs are two of the major barriers to keeping inflation low.

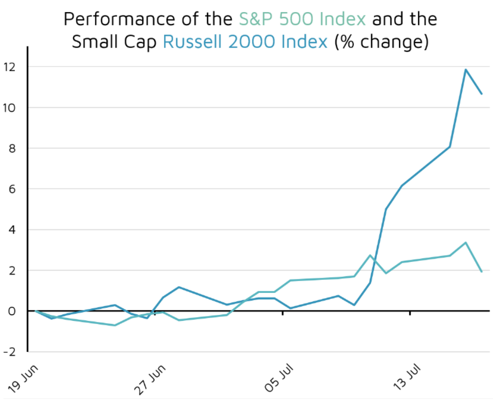
UK wage inflation also remains robust. Average salaries excluding bonuses continue to rise at an annual rate of 5.7% and with inflation back to target real wages are rising – potentially putting more upward pressure on prices. Investors have reduced the chance of the Bank of England cutting rates at its next meeting and this has helped support the pound against the dollar. The European Central Bank left interest rates on hold at its meeting as expected. This helped the euro to rise against the dollar early in the week but it retreated slightly as the ECB appeared less optimistic about another rate cut in September.



US: TECH STOCKS FALL AS POLITICS CLOUDS THE OUTLOOK

High tech stocks suffered a setback after politicians from both main parties raised potential barriers to future growth. President Joe Biden threatened more restrictions on high-tech trade with China as he accused some firms of flouting existing export controls. Meanwhile Republican presidential candidate Donald Trump rattled markets by saying Taiwan should pay the US government for its defence. US-listed shares of Taiwan Semiconductor Manufacturing Company and several US chipmakers fell more than 8% on Wednesday dragging the broad US market lower.

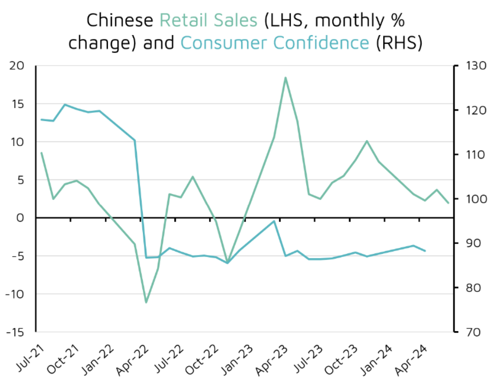
Meanwhile, US smaller companies have been feeling the benefit of the improved outlook for interest rates. Lower inflation has increased the potential for the Federal Reserve to cut interest rates this year. Investors now see up to three rate cuts in 2024 and this helped the small-cap Russell 2000 index to gain 10.7% in the last month, compared to 1.9% for the S&P 500.



EQUITIES: SLOWING DEMAND IN CHINA WEIGHS ON LUXURY GOODS MAKERS

A drop in demand continues to drag on Europe's luxury retailers. Fashion label Burberry announced the immediate departure of its chief executive after another profits warning. It suspended its dividend as like for like sales fell around 21%. Swiss watch makers Richemont and Swatch also reported a big decline in sales. Both companies reported sales down around 14% with Chinese sales down almost 30%. Some luxury groups are offering discounts of up to 50% to boost sales and share prices are reflecting lower revenues as Burberry and Watches of Switzerland shares are down more than 40% this year.

The drop in Chinese demand reflects the slight slowdown in economic growth and a more cautious approach from consumers. Retail sales increased last month, but the rate of growth has been slowing for the last six months and inflation is falling again. Meanwhile the decline of Chinese property prices accelerated to 4.5% for the year to June as even major cities like Beijing recorded prices falling sharply.



Data sourced from Yahoo Finance, FE Analytics and National Bureau of Statistics China