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Market Snapshot

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After the S&P 500 and Nasdaq Composite hit record highs on 18 June, the rally in US indices has since lost some steam. There was a sharp sell-off in technology stocks in the earlier part of the week, but markets moved off lows on Thursday and Friday.

Nvidia – which briefly became the world's most valuable company earlier in June – led the fallers earlier in the week, but the shares regained their poise by Friday. The company's valuation fell by half-a-billion dollars, before regaining some lost ground.

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Markets anticipate the release of a key US inflation reading on Friday – the Personal Consumption Expenditures (PCE) price index, which is keenly watched by the US Federal Reserve as it tries to decide when to start reducing borrowing costs.

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UK general election

Campaigning continues for the general election, with Labour maintaining a lead over the Conservatives of about 20 points.

It will be a considerable surprise if taxes are not increased over the next five years, according to the Institute for Fiscal Studies (IFS). The think tank accused both Labour and the Conservatives of engaging in a “conspiracy of silence” and ignoring painful choices.

The IFS said that the party that wins the next election faces a “trilemma” These are:

- Raise taxes by more than we were told in the manifesto.

- Implement cuts to some areas of spending.
- Borrow more and be content for debt to rise for longer.

The general election takes place on 4 July.

Geopolitics

Any volatility in US technology giants US technology companies hits markets hard as they continue to dominate the benchmark MSCI World Index, boosted by prospects for artificial intelligence (AI).

The world's biggest record labels are suing two AI start-ups over alleged copyright violation. Companies including **Sony Music**, **Universal Music Group** and **Warner Records** allege Suno and Udio have committed copyright infringement on an “almost unimaginable scale”. The Recording Industry Association of America claims the AI groups’ software steals music and “spits out” similar work and is asking for compensation of \$150,000 per work.

Lawyers for Hollywood actress Scarlett Johansson are demanding that OpenAI disclose how it developed an AI personal assistant voice that the actress says sounds uncannily similar to her own. Ms Johansson's legal team has sent OpenAI two letters asking the company to detail the process by which it developed a voice the tech company dubbed “Sky”. Nine months ago OpenAI chief executive Sam Altman approached her proposing that she allow her voice to be licensed for the new ChatGPT voice assistant. OpenAI has now announced it has dropped the voice.

The UK's aim of becoming a global leader in AI is at risk due to substandard mobile data networks, Vodafone chief executive Margherita Della Valle has warned. Ms Valle told The Times that this means the UK will be slower to adopt and take advantage of the technology than rivals.

Economics

Federal Reserve Governor Michelle Bowman said the time was not right yet to start lowering interest

rates – and even said she would be open to raising borrowing costs if inflation didn't pull back. "Should the incoming data indicate that inflation is moving sustainably toward our 2% goal, it will eventually become appropriate to gradually lower the federal funds rate to prevent monetary policy from becoming overly restrictive," Bowman said in prepared remarks for a speech in London. "However, we are still not yet at the point where it is appropriate to lower the policy rate." Recent readings have shown moderating inflation, with the Fed's preferred indicator running just under 3%. However, the rate-setting Federal Open Market Committee noted after its last meeting that there has been only "modest further progress."

A senior policymaker at the European Central Bank (ECB) hinted that two more interest rate cuts may be in store for the euro area this year. Governing Council member Olli Rehn said expectations for two further cuts are "reasonable".

NatWest, Barclays and HSBC cut several of their key mortgage rates, anticipating increased competition among high street banks ahead of an expected interest rate cut this summer. Barclays reduced its two-year 60% loan-to-value rate to 4.9% from 5.1%.

Geopolitics

Washington is investigating **China Mobile, China Telecom** and **China Unicom** in relation to concerns that the companies could use their US cloud and internet businesses to pass sensitive information to Beijing, according to the Reuters news agency. The Biden administration's policy towards technology transfer to China has been consistent with that of the previous Trump administration.

The European Union (EU) officially opened membership talks with Ukraine. The ceremony in Luxembourg was more symbolic than about the nitty-gritty of negotiations, which will start only after the EU has screened Ukrainian legislation to assess what reforms are needed to meet membership standards. The talks are expected to last for years.

The French centre is under strain amid President Emmanuel Macron's electoral gamble. It threatens European financial discipline.

EU regulators accused iPhone maker **Apple** of being in breach of new laws designed to rein in big technology companies. The European Commission, which regulates competition in the EU, said Apple's App Store squeezes out rival marketplaces marking the first time that a company has officially breached the Digital Market Act. The company faces a potential fine of up to 10% of its global revenue if it fails to comply with the rules. Apple said it is confident its plans complied with the law.

Ambassadors of the 32 Nato members officially appointed outgoing Dutch Prime Minister Mark Rutte as its next secretary general. Mr Rutte will take the helm of the defensive alliance from 1 October, replacing former Norwegian Prime Minister Jens Stoltenberg.

Geopolitics

GSK shares fell after US authorities recommended a restriction on doses of any respiratory syncytial virus (RSV) vaccine. The Centers for Disease Control and Prevention's (CDC) advisory committee on immunization practices (ACIP) unanimously voted to restrict the RSV vaccine recommendation to defined at-risk 60-74s, whilst expanding use for all 75 and older.

Carlsberg said that **PepsiCo** has agreed to waive a change-of-control clause in its bottling deal with **Britvic**, making the British company a more attractive acquisition after a \$3.9bn bid by the Danish brewer was rejected by Britvic's board. The move could pave the way for Carlsberg to raise its bid for the maker of soft drinks, which has rejected two approaches from the Danish company already. Carlsberg has until July 19 to make a formal offer for Britvic or walk away.

H&M, the world's second-biggest listed fashion retailer, posted an increase in sales and profits in its second quarter but the figures were weaker than expected. Management also warned that sales for June were expected to fall due to bad weather.

Outsourcing group **Serco** raised its 2024 profit guidance, with management expecting more contract wins and improving productivity. It upped its forecast for underlying profit by £10m to £270m.

Bunzl upgraded its full-year profit guidance due to improved margin performance, driven by management actions and acquisitions. Management highlighted recent acquisitions in Brazil and Canada, which were expected to strengthen its market position and contribute to margin growth.

At a City of London presentation, **Prudential** said will return a further \$2bn to investors via a share buyback to be completed by mid-2026. The dividend policy remains unchanged, with the board continuing to expect the 2024 annual dividend to grow in the range of 7-9%. The company's share price has fallen by almost 20% this year – despite strong demand from mainland Chinese customers purchasing its insurance policies in Hong Kong.

Novo Nordisk will invest \$4.1bn in US manufacturing expansion as it battles to keep up with booming demand for its obesity and diabetes drugs Wegovy and Ozempic. The Danish group will build a second filling and finishing facility in Clayton, North Carolina,

one of the biggest manufacturing investments in its history. Its drugs are injected by users once a week and come in pre-filled pens.

London Tunnels, which aims to convert an abandoned underground network of tunnels that were dug as shelters – but never used – during the Blitz into a tourist attraction, has abandoned its plans to float in London. Instead, the company which is developing the Kingsway exchange tunnels in central London, plans to float on Euronext Amsterdam raising £30m in the process. Management argued it could leverage the size and scale of the equity and capital markets in Europe by having its initial public offering in the Dutch capital – and make the tunnels a significant draw.

Strong demand for cruise holidays has helped **Saga** get off to a good start to the year, offsetting weakness in its insurance business. Saga said its river and ocean cruise businesses had an “exceptional start to the year” with booked load factors ahead of last year, at 83% for ocean cruises and 78% for river. Travel bookings are also ahead of the prior year, with booked revenue 14% ahead due to a higher number of passengers.

Online electrical retailer **AO World's** full-year results were in line with market expectations after the group raised its guidance to the City in March. Positively, management is upbeat about the current year, expecting the business to return to double-digit revenue growth, despite cautious consumers.

Deliveroo shares rose following a report that US meal delivery group **Doordash** had expressed an interest in a takeover of the UK company last month. **Reuters** noted that San Francisco-based Doordash made the approach to Deliveroo but talks ended after disagreement on valuation. It is understood there are no ongoing talks.

There was some gloomy news in the aircraft manufacturing sector. Prosecutors in the US have recommended that the Department of Justice needs to bring criminal charges against aircraft maker **Boeing**, according to press reports. The company is accused of violating a settlement relating to two fatal crashes involving its 737 Max aircraft, which killed 346 people.

Airbus issued a profit warning, blaming supply-chain issues and its Space Systems division. Total full-year earnings before interest and tax would be reduced by about €900m, due to financial charges incurred by its telecommunications, navigation and observation programmes in its space operations. The engineer also cut its target for commercial airplane deliveries in 2024 from 800 to 770, due to a worsening lack of engines and a shortfall in the availability of seats to

fit out its new jets. The warning resulted in a 10% fall in its share price. The warning hit UK-listed suppliers **Rolls-Royce** and **Melrose Industries**.

Volkswagen will invest up to \$5bn in **Tesla** rival **Rivian**. The deal creates a joint venture that will allow the German car maker and the US-based electric vehicle maker to share technology. Rivian shares jumped by almost 50% after the announcement. The tie-up comes as competition intensifies between EV makers and Western countries move to impose tariffs on Chinese imports. Founded in 2009, Rivian has not yet posted a quarterly profit.

Meanwhile, **Tesla** is recalling more than 23,000 Cybertrucks due to potential issues with their windshield wipers and trunk bed trims. The US National Highway Traffic Safety Administration said an “excessive electrical current” can cause the wiper motor controller to stop working, which could reduce visibility and increase crash risk.

Cruise operator **Carnival** posted better-than-expected second quarter results and raised its full-year guidance on the back of a record cumulative booked position for 2024. Chief executive Josh Weinstein noted how quarterly revenues, operating income, customer deposits and booking levels all beat the company’s own forecasts and reached record levels.



Anglo-American-owned De Beers warned that the recovery in diamond demand will be “protracted”, after reporting a drop in diamond sales. Rough diamond sales value for De Beers’ fifth sales cycle of 2024 dropped to \$315m, compared with \$456m a year ago. Sales were also lower than in the fourth sales cycle, from 18 April to 22 May, when they were worth \$383m. Anglo plans to sell De Beers as part of a corporate restructuring after rebuffing an offer from rival **BHP**.

Chinese fast fashion group **Shein** has filed initial paperwork to list on the London Stock Exchange, reports suggested. The online retail giant, which is based in Singapore but has extensive operations in China, filed the confidential papers with UK regulators recently, the report said. Shein became one of the biggest fashion retailers in the world during the pandemic but has faced criticism over

the environmental impact of its business model. The company had planned to list in the US, but the move came under scrutiny from both Republican and Democrat politicians amid concerns about the company's close links to China.

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