



# PKB's Market Espresso

Short. Rich. Strong.

# US – CPI & FOMC

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As expected, Fed officials voted unanimously to keep **rates unchanged** – indicating a **preference** to **wait longer** before easing can start, despite acknowledging “modest further progress” on inflation lately.

- **Dots** were updated to just **one cut in 2024** (compared to three reductions in March) - for **2025 four cuts** are expected (from three in March)
- Possibility of **first cut** in **December** gaining momentum....
- ... in the meanwhile headline and core **CPI** delivered a sizable **downside surprise in May** - Core CPI for May at 0.2% MoM vs. 0.3% expected, lowest since August 2021

# French aperitif

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The outcome of the **European elections** recently prompted President Macron to **call snap elections**. Markets have always **disliked uncertainty** and this time it is not different! Significant corrections were seen on French assets and it is unlikely that clear skies will return before the final outcome is known in early July.

The French case is reminding investors that **political risk** is always to be considered, even in seemingly calm times.

**Looking ahead**, we are in for a hot year in this respect. **Six out of seven G-7 countries** will have presidential or parliamentary elections.

After **France** (July 7) and **UK** (July 4) in the next weeks, we'll face the **US** Presidential election at the beginning of November and **Japan, Germany** and **Canada** in 2025.

# EU Equity markets – What's next?

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After the political shift to the right in Europe and in particular Emmanuel Macron calling snap legislative elections in France **ratchets up political risk in Europe** and opens up a **period of uncertainty** until the evening of the 2nd round, on 7<sup>th</sup> of July. As a result, European equity markets have **completely lost their strength and momentum** from one day to the next and have gone into sell-off mode.

- The sectors most at risk are those **with a high beta related to political risk**, significant exposure to France and the EU, and high debt levels.
- The biggest sector losses were seen in **banks, financial services and utilities**. Moreover property, automotive, construction & materials, travel & leisure have been sold out too.
- The risk of a **government crisis in France** and the political upswing of radical right-wing forces in Europe has unsettled **international investors in particular**, who have quickly begun to underweight European equities.
- Although the risk of further **selling remains latent** for a few weeks, buying opportunities could arise in the near future for individual stocks that have been placed under protective custody.  
**We see – by time - opportunities in good quality stocks.**

# Why Energy stocks underperform?

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Since its lows at the beginning of June, **oil price has completed a significant rebound** (+11.73% in Euro). European **oil multinationals have clearly lagged behind** this development, with Shell (1.51%), BP (+1.66%) and Total (-2.35%) clearly underperforming. **What are the reasons?**

- **At first glance, it is difficult to find reasons** for the underperformance, even if one argues from the perspective of an ESG investor.
- **2<sup>nd</sup> of June OPEC+ countries agreed on oil production quotas** through the end of 2025 **but the market ignored the positive OPEC statement**. Even Russia is now committed to OPEC+ quota and **will cut oil output** by 0.2mbd in 3Q24 from 9.2mbd in May. Last year the whatever is necessary from Saudi was ignored and oil hit \$90 afterwards.
- It should also be mentioned that **the existing US government has no interest in a high oil price before the elections**. Whatever this means for the oil market...
- Also ignored are the **excellent fundamentals of the oil multinationals**: very low valuations, high free cash flows, persistently low costs, high dividends and buybacks, excellent income situation in LNG & similar as well as continued high investments in renewable energies, a diversification that minimizes oil & gas relevant risks (Total Energies is already the world's largest producer of renewable energy!).

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